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 FM AMEMBASSY RANGOON
 TO RUEHC/SECSTATE WASHDC 6362
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UNCLAS SECTION 01 OF 02 RANGOON 000754

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 SUBJECT: JAPANESE TRADE WITH BURMA ON THE RISE

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¶1. (SBU) Summary. Trade relations between Japan and Burma have improved during the past five years, in Burma's favor. According to the Japan External Trade Organization (JETRO), Burma exported more than \$245 million in products to Japan in 2006, an increase of 139 percent since 2001. Burma imported \$103 million from Japan in 2006, a decrease of 47 percent since 2001, but an increase of almost 13 percent over the previous year. Japanese Embassy officials point to the construction of the new capital in Naypyidaw as the main reason for the increase of Japanese exports, primarily heavy machinery and vehicles, to Burma between 2005-2006. The Japanese Government continues to discourage new investment in Burma, although Japanese companies would quickly return when the situation changes. End Summary.

Burmese Exports on the Rise

¶2. (SBU) During a meeting with Norifumi Ichikawa and Atsushi Igarashi, Japanese Embassy economic officers, we discussed the changing nature of Japanese-Burmese trade, the possibility of new Japanese investment, and Burma's worsening investment climate. Mr. Igarashi explained that Burmese exports to Japan consist of lower value added products such as agricultural goods, wood, footwear and apparel. Although the value of Burmese exports to Japan increases annually, the trend is not reflected in Japanese exports to Burma.

Burma-Japan Trade, 2001-2006 In USD millions

Year	Burmese	Percent	Burmese	Percent
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	Imports	Change	Exports	Change
2001	187.113	--	102.500	--
2002	114.700	-38.7	110.200	7.5
2003	123.700	7.8	138.800	25.9
2004	105.371	-14.8	180.077	29.7
2005	91.835	-12.8	203.528	13.0
2006	103.647	12.9	245.280	20.5

Source: Japan External Trade Organization (JETRO), July 2007

13. (SBU) In 2006, Japan imported more than \$245 million from Burma, an increase of 20 percent over 2005 values. Between 2001-2006, Japanese imports of Burmese products rose more than 139 percent, from \$102 million in 2001 to \$245 million in 2006. Mr. Ichikawa elucidated that there is a growing demand in Japan for certain Burmese products, including agricultural products, fish and seafood, textiles and footwear. In the past year alone, Burmese exports of fruits and grains increased from less than \$6 million in 2005 to more than \$14 million in 2006. Burmese products, Mr. Ichikawa commented, are relatively inexpensive compared to products from China, Thailand or Vietnam, and the improving quality and low cost of these products makes them attractive to Japanese consumers.

14. (SBU) The statistics on the Japanese exports to Burma depict a much different trade relationship. Between 2001-2005, Japanese exports to Burma decreased by 51 percent, from \$187 million to \$91 million. Mr. Ichikawa noted that the withdrawal of several large Japanese trading companies in 2001-2002 and the high cost of Japanese products relative to Burmese goods explain the drop in imports. Between 2005-2006, however, Japanese exports to Burma increased 13 percent. The sale of heavy machinery products and vehicles account for the majority of this increase, Mr. Igarashi explained. Due to the construction of the new capital in Naypyidaw, the Burmese government imported more heavy machinery, machine parts,

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and vehicles in 2006. Both Mr. Igarashi and Mr. Ichikawa believe this trend will continue in 2007, although the increase in Japanese exports to Burma should not be as dramatic as the increase in Japan's imports of Burmese products.

Discouraging New Investment

15. (SBU) No new Japanese investment has gone forward in Burma since 2001. Mr. Igarashi noted that although Japanese companies, particularly oil and gas and import/export companies, are interested in establishing operations in Burma, they are unwilling to take the risk. He explained that Burma's worsening investment climate -- no rule of law, a poor exchange rate policy, frequently changing foreign investment regulations, and lack of infrastructure -- deters foreign investment. Previously, large Japanese trading companies, such as Mitsubishi, had sizeable offices in Rangoon; these offices have either closed or have dwindled to one-man shops. Mr. Igarashi also acknowledged that the Japanese government, which supports the United States' Burma policy, discourages companies from investing in Burma. "It is not illegal for them to invest in Burma, but it is not recommended," he declared. "When and if U.S. sanctions are lifted, Japanese companies will flood the Burmese market," Mr. Ichikawa opined, "as they see Burma as the final destination for investment in the Asian region."

16. (SBU) According to the Myanmar Chamber of Commerce, 22 Japanese companies operate in Burma in three primary sectors: the garment industry, oil and gas, and agriculture. Many of these companies, however, are in Burma in name only -- they no longer do business in the country. The Myanmar Chamber of Commerce reports that Japanese investment totals \$211 million, which accounts for 1.45 percent of Burma's total foreign direct investment.

Comment

17. (SBU) Japanese companies have begun to shift operations from China to other Asian countries, such as Vietnam and Thailand, but

they continue to shy away from Burma. Although the Japanese officers we met with noted that Japan's support for U.S. economic sanctions plays a part in this decision, Burma's poor and ever-worsening investment climate is also a factor. In order to attract the foreign investment it so desperately needs, the GOB must establish liberal trade policies; encourage privatization and open competition; normalize exchange rate policies; and establish the rule of law. Without these reforms, only those foreign investors pillaging Burma's lucrative natural resource sectors will continue to take the risks.

VILLAROSA